

This Week in Washington



WITH CONGRESSMAN
JO BONNER

Uncertainty Causes Turmoil in Financial Markets

With an unprecedented level of economic uncertainty, one thing remains crystal clear.

Events that are larger than most anything we have ever seen during our lifetime are occurring at such a rapid rate that by the time I finish this column, much of what I started writing has likely already changed.

That makes the task of trying to explain what has happened in recent days – or even fully comprehend and absorb it – very difficult indeed. In an obviously simplified conclusion, however, we are left with the reality that from the housing crunch to wild swings of three, four and five hundred points in the Dow Jones industrial average, America is truly in the midst of a tumultuous and uncharted time.

As President Bush said last Friday in an effort to try to calm a nervous nation, "this is a pivotal moment for America's economy."

Just as he did in the hours and days after the worst terrorist attack on American soil in history, the president once again has sought to restore confidence, this time to a financial system that is admittedly intricate and complex.

The Washington Post went so far as to call the current market crisis potentially "the greatest destruction of financial wealth that the world has ever seen."

As you know, the giant investment bank, Lehman Brothers, which was founded in Montgomery in 1850 as a cotton brokerage, filed for bankruptcy protection last week.

Just two days later, the federal government seized control of the insurance giant American International Group (AIG) in order to preserve a crucial piece of the global financial system.

These two announcements came on the heels of a string of federal interventions already in 2008, including \$9 billion for IndyMac, \$29 billion of risk from Bear Stearns, \$85 billion from AIG, and at least \$200 billion from the Fannie Mae/Freddie Mac bailouts.

With so many investors and institutions engaged in so many different debt and investment contracts – many hinging on one another – it is taking an awfully long time to figure out how all the debt is interrelated and which market players are responsible for what.

Because of the complex interconnectedness of this market, a failure of one large institution, such as AIG, poses a fatal (or “systemic”) risk to the entire market.

One thing is certain; the collapse of our financial markets would prove to be disastrous to every American’s well being. The pain currently being felt on Wall Street would quickly move to Main Street, throughout the globe and around the world if nothing is done. N
No one would escape the devastating effects of such a collapse; as such, we simply can not allow this to happen if there is a way to avoid it.

The actions of the Federal Reserve and the U.S. Treasury, invoking powers granted after the 1929 stock market crash to purchase a majority stake in AIG, while unfortunate, were necessary.

Regretfully, it is obvious that even more must now be done to increase confidence in the system. If we do not act now, the cost of our inaction would be much greater than the proposed legislative plan. Unfortunately, there are no guarantees.

Treasury and Congress are readying a plan that would authorize the government to buy hundreds of billions of dollars in bad mortgages from banks and other financial institutions in order to take the debt off of their books.

The goal of removing this debt is to take away some of that uncertainty that has wreaked havoc on the markets and free up capital in order to stabilize the markets.

Treasury Secretary Henry Paulson stated when he announced the latest plan, "This troubled asset relief program must be properly designed and sufficiently large to have maximum impact, while including features that protect the taxpayer to the maximum extent possible."

While many of the responses taken in recent weeks have been unprecedented, the alternative, allowing our financial markets to collapse, is simply not an option. Our goal is to protect Main Street from the greed and irresponsible behavior of Wall Street.

President Bush, Secretary Paulson, Federal Reserve Chairman Ben Bernanke, SEC Chairman Chris Cox and Congressional leaders worked through the weekend to hammer out the details of the plan.

The goal now is to complete the legislation by the end of the week in order to stabilize the financial markets as quickly as possible and prevent further turmoil.

Our retirement, savings, home values, and even the ability to borrow for college are all tied to America's financial security; therefore, it is imperative that Congressional action be taken as quickly as possible.

As President Bush said last Friday, "We will weather this challenge—and we must do so together. This is no time for partisanship."

Without question, we must all put election year politics aside and do what is best for the American people in this difficult time to get our economy moving forward.

My staff and I work for you. If we can ever be of service, do not hesitate to call my office toll free at 1-800-288-8721.

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